



Agenda Item

Orange City Council

Item #: 10.3.

4/28/2026

File #: 26-0221

TO: Honorable Mayor and Members of the City Council

FROM: Jarad Hildenbrand, City Manager

1. SUBJECT

Consideration of Resolutions pertaining to the November 3, 2026 General Municipal Election including a one-cent Transactions and Use Tax (Sales Tax) Measure

2. SUMMARY

For several years, the City of Orange has grappled with significant financial constraints. In response, for the past several years, the City has reduced services to balance the budget. After making considerable reductions, continued cost increases coupled with lagging revenues have resulted in a roughly \$20 million operating deficit for Fiscal Year 2026- 2027. To address this deficit for Fiscal Year 2026-2027, the City eliminated or froze over 50 full-time equivalent positions, reduced its operating expenditures even further, and intends to transfer \$17 million from the City's Emergency Medical Transfer Fund, Capital Improvement Plan Fund, and Equipment Replacement Fund. This is a short-term solution to an ongoing structural budget deficit. Consistent and ongoing revenue is necessary to not only balance the City's budget, but fund and restore community programs and services. Per City Council direction at the March 24, 2026, City Council meeting, staff is proposing resolutions pertaining to the November 3, 2026 General Municipal Election including a draft 1¢ Transactions and Use Tax (Sales Tax) ballot measure for the City Council's consideration.

Over the past two budget cycles, the City has already implemented significant efficiency measures, including the elimination or freezing of over 50 full-time positions, reductions in service levels, and the deferral of capital investments. These actions reflect a comprehensive, multi-year effort to identify operational efficiencies and reduce expenditures wherever feasible. As a result, the City's current staffing levels are at or near a 20-year low, and General Fund operating expenditures have remained nearly flat despite rising costs. At this stage, additional reductions would not represent efficiency gains, but rather further reductions in core City services.

3. RECOMMENDED ACTION

1. Adopt Resolution No. 11670. A Resolution of the City Council of the City of Orange Calling and Giving Notice of a General Municipal Election to be held on Tuesday, November 3, 2026, for the election of certain officers as required by the provisions of the laws of the State of California relating to General Law cities and for the submission to the voters a question relating to a local general transactions and use tax (Sales Tax)
2. Adopt Resolution No. 11671. A Resolution of the City Council of the City of Orange adopting regulations for candidates for elective office pertaining to candidates' statements submitted to the voters at an election to be held on Tuesday, November 3, 2026.
3. Adopt Resolution No. 11673. A Resolution of the City Council of the City of Orange Requesting the Board of Supervisors of the County of Orange to consolidate a General Municipal Election to

be held on Tuesday, November 3, 2026 with the Statewide General Election to be held on the same date pursuant to Elections Code Section 10403.

4. Identify Members of the City Council to file arguments for or against the measure and adopt Resolution No. 11672. A Resolution of the City Council of the City of Orange setting priorities for filing written arguments regarding a City measure and directing the City Attorney to prepare an impartial analysis for the measure to be submitted to the voters at the General Municipal Election to be held on Tuesday, November 3, 2026.
5. Adopt Resolution No. 11674. A Resolution of the City Council of the City of Orange providing for the filing of rebuttal arguments for City measures submitted at municipal elections.

4. FISCAL IMPACT

The estimated expense to hold the November 3, 2026, General Municipal Election including one ballot measure is \$218,500 and will be included in the Fiscal Year 2026-27 General Fund (100) budget.

5. STRATEGIC PLAN GOALS

Goal 2: Enhance Economic Development and Achieve Fiscal Sustainability.

6. DISCUSSION AND BACKGROUND

Calling of November 3, 2026, General Municipal Election

The proposed resolutions initiate the process for conducting the City's General Municipal Election to be held on November 3, 2026, for the purpose of electing a Mayor; one Councilmember each from Districts 1, 4, and 6; and potentially placing a one-cent sales tax measure on the ballot, as discussed below.

Proposed One-Cent Sales Tax Measure

The City of Orange (City) has been grappling with significant budget challenges for the past several years. In preparation for the Fiscal Year 2024-2025 (FY25) Annual Operating Budget, the City projected a \$19 million operating deficit. To address the projected FY25 deficit, the City held multiple meetings and ultimately made several service reductions. Despite these reductions, the City continued to face a nearly \$8 million projected operating deficit when the budget was adopted on June 25, 2024.

Through 2024, the City continued to discuss and implement additional service reductions to lessen the operating deficit, some of which, are still in place today. Some of the reductions included:

- Reducing the Orange Public Library's operating hours
- Eliminating ongoing maintenance of the Santiago Creek
- Eliminating Lyons Security at the Old Towne parking garage
- Eliminating sidewalk steam cleaning
- Eliminating City-sponsored events (e.g., 3rd of July), and instead, contracting with non-profit organizations willing to produce the event(s)
- Holding five firefighter positions vacant

- Holding six police officer positions vacant

As FY25 ended, actual expenditure and revenues reflected a minimal operating surplus. Although an improvement from where the City began, it is important to note that this small operating surplus was only achieved through significant service reductions and one-time revenue the City received that year. Absent the one-time revenue, the City would have still realized an operating deficit.

In less than two years since the FY25 budget adoption, the City is projected to close Fiscal Year 2025-2026 (FY26) with a net \$2 million deficit despite operating expenditures projected to come under budget. Additionally, even when eliminating or freezing over 50 full-time equivalent positions (including police officer positions), the City began Fiscal Year 2026-2027 (FY27) budget discussions with a projected \$20 million operating deficit, seemingly starting right back in the same financial position as the City did during FY25 discussions.

Despite these reductions, the City continues to face structural budget challenges driven primarily by revenue growth that has not kept pace with inflation and the rising cost of providing municipal services. This structural imbalance is not unique to Orange, but reflects broader trends affecting municipal governments statewide, where revenues grow incrementally while costs, particularly in public safety, pensions, and infrastructure, continue to rise at a faster and more volatile pace.

According to the Bureau of Labor Statistics' reported consumer price index for all urban consumers in the Los Angeles-Long Beach-Anaheim area (CPI), since 2023 to 2025, prices have increased nearly seven percent. From March 2023 to March 2026 (the most recent data available for 2026), prices have increased 10%.

Despite these increases, the City has remained disciplined in its spending. Setting aside debt service and transfers out, the City General Fund Operating expenditures, on average, has increased roughly 2% since FY24 (see Table I - General Fund Expenditures). The larger increase from FY24 to FY25 was mostly due to cost allocation and does not reflect true expenditure increases. This is further demonstrated with the minimal increases from FY25 to the proposed FY27 budget which shows, on average, a less than 1% increase in spending.

Table I - General Fund Expenditures

Category	FY24 (Actual)	FY25 (Actual)	FY26 (Year End Estimate)	FY27 (Proposed)
Operating	\$134,409,363	\$141,542,790	\$141,403,713	\$143,221,000
Debt Service	\$17,385,681	\$17,377,333	\$17,515,954	\$17,905,400
Transfer Out	\$0	\$487,680	\$1,455,252	\$9,554,500
Total (With Transfer)	\$151,795,317	\$159,407,803	\$160,374,919	\$170,680,900

While economic development remains a key priority, it is not an immediate fiscal solution. Revenue-generating projects typically take several years from entitlement to construction to full revenue realization. As such, economic development is a long-term strategy and cannot address the City's near-term structural deficit within the timeframe necessary to maintain current service levels.

Delaying action in anticipation of future economic development will not maintain the City’s current service levels; rather, it will require additional reductions in the near term while those longer-term strategies are still being realized.

The City is also actively evaluating opportunities to better utilize underperforming and surplus assets. However, repositioning or monetizing these assets requires careful planning, market analysis, and, in many cases, multi-year implementation timelines. While these strategies may contribute to long-term fiscal stability, they are not sufficient to address the City’s near-term structural deficit.

On the General Fund revenue side (See Table II - General Fund Revenues), the average increase since FY24 is less than 1%. This is well below CPI, and far from keeping pace with cost-of-service increases.

Table II - General Fund Revenues

Category	FY24 (Actual)	FY25 (Actual)	FY26 (Year End Estimate)	FY27 (Proposed)
Revenues (Without Transfer)	\$152,055,317	\$155,388,022	\$153,826,935	\$153,686,300

Assuming 1% annual growth, the City will need to draw on available fund balances in future fiscal years to balance its budget. Staff projects that this approach can only continue until Fiscal Year 2030 (FY30), at which point available fund balances will be depleted, leaving the City with no option but to implement significant and immediate service reductions to balance future budgets.

1¢ Transactions and Use Tax (Sales Tax Measure)

On March 24, 2026, the Orange City Council evaluated different revenue options for the City Council’s consideration. As a part of that direction, the City Council directed staff to bring back a 1¢ sales tax ballot measure. Provided below is an overview of the draft measure.

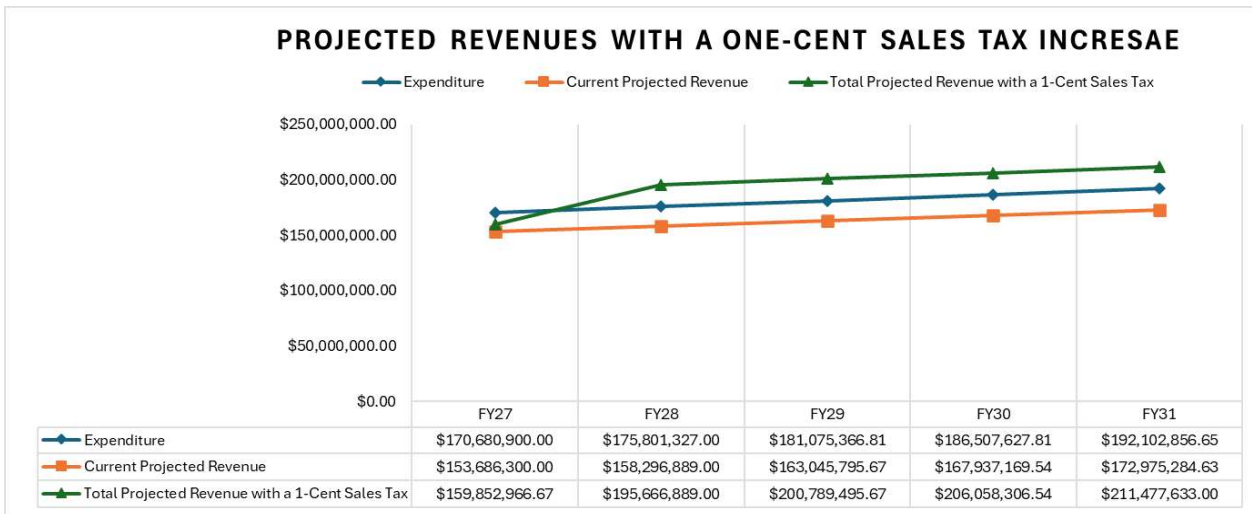
Sales Tax Projections

With a 1¢ sales tax, the City is projecting \$37 million in additional revenue to invest back into the Orange community.

In drawing from FY27 projected General Fund revenues (operating revenues only - no transfers from other City funds or one-time revenues) and expenditures (with debt service and transfers) and applying a 3% increase year-after-year (but only applying a 1% increase year-after-year to the one-cent sales tax revenue), the City is slated to realize ongoing surpluses with a 1¢ increase (see Chart I - Projected Revenues with a 1¢ Sales Tax Increase).

Absent the 1¢ increase, the City will realize ongoing deficits.

Chart I - Projected Revenues with a 1¢ Sales Tax Increase



Sales Tax Mechanics

Sales tax in Orange is currently 7.75%. Of this amount, the City receives 1%. The remaining amount is collected and received by the County of Orange and the State of California.

State law authorizes cities and counties to adopt local sales taxes in addition to the base amount the City already receives (e.g., 1% share). The local portion of the sales that a city and county can levy together is capped at 2%.

With voters having approved Measure M (0.5% Orange County Transportation Authority Sales Tax Measure), 1.5% is available for other local sales tax increases. In other words, if the County of Orange or other local districts passed additional local sales tax measures, those would apply to the available cap.

Locally Controlled Revenue

Any revenue generated from a sales tax increase would be locally controlled and retained by the City, meaning it would stay in Orange and cannot be taken by the State of California or County for other uses.

For example, at a 1¢ sales tax rate increase, if someone made a \$100 purchase, Orange would receive \$2.00 as opposed to the current \$1.00 with the County and State of California share remaining the same. All increased revenue would stay in the Orange community.

\$100 PURCHASE CURRENT 7.75% RATE



*Rounded to nearest hundredth

\$100 PURCHASE 8.75% RATE

CITY OF ORANGE
ORANGE COUNTY
STATE OF CALIFORNIA



*Rounded to nearest hundredth

What is Not Taxed

If Orange voters approved a 1¢ sales tax increase, it would cost an additional 1¢ per \$1.00 spent on *taxable* goods. Taxable goods excludes everyday items like unprepared groceries (roughly 70% - 80% of grocery store sales are not taxable), personal services, and rent.

Additionally, it is anticipated that a little over a 1/3 of the increased revenue will derive from non-Orange residents.

SALES TAX QUICK FACTS



1% Increase Equals
a Penny Per \$1

DOES NOT apply to:

-  unprepared food/groceries
-  prescription medicine
-  property tax and rent
-  personal services medical, legal, dental

Sales Tax in Orange County

In November 2024 election, over 100 ballot measures across the State of California related to sales tax measures. Of those, 25 measures applied to cities in San Bernardino, Los Angeles, and Orange County agencies. Specific to Orange County, voters 11 cities have enacted sales tax increases. These agencies include:

1. Buena Park - 8.75%
2. Fountain Valley - 8.75%

3. Garden Grove - 8.75%
4. La Habra - 8.75%
5. La Palma - 8.75%
6. Placentia - 8.75%
7. Stanton - 8.75%
8. Los Alamitos - 9.25%
9. Santa Ana - 9.25%
10. Seal Beach - 9.25%
11. Westminster - 9.25%

Accountability and Transparency

The proposed measure includes fiscal accountability/transparency controls including an Independent Oversight Committee (Committee). As drafted, this Committee would be comprised of 11 individuals including:

- One residing member from each City Council Voting District.
- One at-large residing member selected by the Mayor.
- One member active in a business organization representing the City's business community.
- One member active in a bona fide taxpayers' association.
- One member active in a bona fide non-profit located within the City.
- One resident member who is the parent or guardian of a child enrolled in a public, private, or charter school located within the City.

The Committee will be a public Brown Act body, meet quarterly, review audit reports related to the sales tax measure against the Citywide fiscal policy and Orange Community Investment Plan, and make recommendations to the City Council.

Next Steps

In simple terms, the City has already reduced staffing, cut services, and deferred infrastructure investment. Without a new ongoing revenue source, additional reductions to public safety, parks, libraries, infrastructure, and other services will be required. This measure provides the community with a choice: maintain current service levels and reinvest in Orange, or accept further service reductions over time.

To give Orange voters the option to consider a 1¢ sales tax increase, two-thirds (5 out of 7) of the City Council must vote in favor of placing the measure before Orange voters. If approved by the City

Council, provided below is the ballot question that will be presented to the Orange community:

<p>City of Orange Public Safety/Essential Services Measure To maintain City of Orange’s quality of life, such as 9-1-1 response; maintaining police/fire protection; preventing crimes/thefts; retaining/attracting well-trained police officers/firefighters; keeping public parks safe/clean; addressing homelessness; wildfire protection/prevention; repairing streets/potholes; critical infrastructure improvements; shall a measure establishing a 1¢ sales tax, providing approximately \$37,000,000 annually for general revenue/government purposes, until ended by voters, with independent oversight committee, all funds benefiting Orange residents, be adopted?</p>	Yes	
	No	

Conclusion

In December 2023 and May-June 2024, the City conducted two separate community surveys. The surveys’ results made clear that the Orange community values public safety (i.e., 911 response times, fire protection, property crime prevention, etc.), addressing homelessness, repairing streets and potholes, and ensuring our community’s children have safe places to play.

Additionally, as a part of the FY27 budget process, staff engaged the Orange community through the *Our Orange Conversation* outreach initiative. Recognizing that public safety is critical to our community, the survey focused on that aspect of City operations. However, the survey also included an open-ended question, giving respondents the opportunity to provide any feedback to the City. The responses were clear - Orange residents cherish this community; they value the work of the Orange Police Department and the Orange City Fire Department, and they want Orange to be a place where residents can enjoy the community and/or raise a family (e.g., parks, roads, and other public areas are clean, safe, and maintained).

Lastly, respondents highlighted that they are concerned about protecting the City’s long-term financial stability. In fact, many respondents placed this as the number one priority in recognition that the City’s finances must be stable before these valued services can be adequately maintained.

Currently, nearly 70% of the City’s General Fund budget is dedicated to the police and fire departments. From this perspective, the City is meeting the demands of the community by allocating the lion share of its resources to public safety. However, with competitive wages offered elsewhere, the City continuously loses police officers to neighboring agencies. Moreover, in FY27 alone, the City is deferring \$7 million in capital projects while transferring an additional \$10 million out of the capital project fund just to make ends meet. This will result in further deterioration of City facilities and public spaces. Likewise, the City is unable to budget the full amount called for in the City’s pavement management plan. While the City’s pavement management index is strong today, continued

deferment will lead to costly road maintenance and/or resurfacing projects in the future.

Overall, the City is relying on short-term strategies to balance the City's budget. The City made significant service reductions two years ago only to find that cost increases and lagging revenues have placed the City in the same position going into FY27, and this is despite the City's full-time equivalent workforce being near a 20-year low. This year-to-year approach is not sustainable and can only continue into FY30 without depleting the City's remaining available fund balances.

Absent a new ongoing revenue source, the City will be required to implement additional service reductions, including further impacts to public safety staffing, park maintenance, library services, and infrastructure investment. These reductions would occur incrementally over the next several years as available fund balances are depleted. The City Council is not being asked to choose between efficiency and new revenue. The City has already implemented significant efficiency measures over multiple years. The decision before the Council is whether to maintain current service levels or proceed with additional reductions to core City services.

Should Orange voters approve a 1¢ sales tax measure, staff are developing an Orange Community Investment Plan (OCIP). The OCIP will be a living document serving as a commitment to the Orange community that their additional contributions will be prioritized to stabilize the City's finances, bolster public safety services, maintain and improve the City's roads and infrastructure, ensure that City parks are safe and clean, and restore the events and services that have defined the Orange community. Some of the OCIP priorities may include:

- Continue to fund the Orange Police Department's Real-Time Crime Center - **Estimated at over \$1 million** to provide Orange Police Officers with real-time information so they may respond to calls more efficiently and with improved operational intelligence.
- Fund an additional **\$3 million annually** in street maintenance to ensure our City streets are deemed to be in "good condition" as evaluated by a third-party pavement management consultant.
- Commit over **\$2 million annually** for beautification efforts like improvements to City medians, landscaping, lighting, neighborhood trash and shopping cart pick-up, graffiti removal, and weekly steam cleaning in Old Towne Orange.
- Reinstate police officer positions and adequately fund the City's North Service Planning Area contract or other future services for those experiencing homelessness. In total, this is expected to cost over **\$3 million annually** and will provide the City with the resources necessary to connect those experiencing homelessness with critical services.
- Commit **\$1 million annually** to help implement the City's safe routes to school plan.
- Commit **\$3 million annually** for vehicle replacement including public safety vehicles.
- Commit **\$5 million annually** to address deferred facility maintenance, ensuring the City's facilities and the overall beautification of the community is enhanced and preserved.

7. ATTACHMENTS

- Resolution No. 11670

- Resolution No. 11671
- Resolution No. 11673
- Resolution No. 11672
- Resolution No. 11674